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PP RUEHIK  
DE RUEHAH #0017/01 0061133  
ZNR UUUUU ZZH  
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FM AMEMBASSY ASHGABAT  
TO RUEHC/SECSTATE WASHDC 4015  
INFO RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY  
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY  
RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE  
RUCNCIS/CIS COLLECTIVE  
RUCNMEM/EU MEMBER STATES COLLECTIVE  
RUEHAK/AMEMBASSY ANKARA 6080  
RUEHBJ/AMEMBASSY BEIJING 3773  
RUEHKO/AMEMBASSY TOKYO 3632  
RUEHIT/AMCONSUL ISTANBUL 4322  
RUCNDT/USMISSION USUN NEW YORK 1379  
RHMCSUU/CDR USCENCOM MACDILL AFB FL  
RUEHVEN/USMISSION USOSCE 4258  
RUEAIIA/CIA WASHDC  
RHEFDIA/DIA WASHDC  
RHEHNSC/NSC WASHDC  
RUEKJCS/SECDEF WASHDC  
RUEKJCS/JOINT STAFF WASHDC

UNCLAS SECTION 01 OF 02 ASHGABAT 000017

SENSITIVE

SIPDIS

STATE FOR SCA/CEN; EEB; NEA/IR  
ENERGY FOR EKIMOFF/BURPOE/COHEN  
COMMERCE FOR EHOUSE/DSTARKS

E.O. 12958: N/A

TAGS: [EPET](#) [PGOV](#) [EINV](#) [TX](#)

SUBJECT: TURKMENISTAN: SOUTH YOLOTEN AND FOUR SERVICE  
CONTRACTS

REF: 09 ASHAGABAT 1481

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11. (U) Sensitive but unclassified. Not for public Internet.

12. (SBU) SUMMARY: On December 29, 2009, Turkmenistan's state-owned gas company Turkmengaz signed four servicing contracts with foreign companies totaling \$9.7 billion for the development of phase one of the South Yoloten gas field. According to the contracts, the companies will drill for gas and build gas treatment facilities with the hope of processing up to 30 bcm of gas. No large western companies received any of the recently-awarded service contracts. The Turkmen Government plans to finance the contracts through a loan provided by the Chinese Development bank and through Turkmengaz revenues. Reportedly, the projects are due to be completed in 2014, and most of resulting gas is earmarked for China. END SUMMARY.

13. (SBU) UAE-based Petrofac International (UAE) LLC, a branch of the New Jersey-registered Petrofac Limited, was awarded a \$3.98 billion contract to build a gas processing plant with a capacity of 10 bcm per year, collection pipelines and other infrastructure. Chinese National Petroleum Corporation's (CNPC) Chuangqing Drilling Engineering Company won a \$3.13 billion contract for drilling and building ground facilities to sustain production of 10 bcm of gas per year. A consortium of LG International Corporation and Hyundai Engineering Co. Ltd (both South Korean companies) received a \$1.48 billion contract to build a gas processing plant with a capacity of up to 10 bcm of gas per year. UAE-based Gulf Oil and Gas FZE won a \$1.15 billion contract to drill wells for production of 20 bcm of gas annually.

14. (SBU) To date, it is unclear which portion of the \$9.7 billion in service contracts to the five companies will be

paid through loans from the Chinese and which portion will be covered by Turkmenengaz funds. The Chinese Government provided a \$4 billion loan to Turkmenengaz in June 2009. Also, unofficial information has circulated in Ashgabat that the Chinese Government will provide the Turkmen Government with an additional loan in the amount of nearly \$5 billion. GOTX officials alluded to this additional loan in November 2009 (reftel). Given that the GOTX was without gas revenues from Russia for nine months in 2009, the loans, which can be paid back with in-kind gas payments, would be timely.

15. (SBU) Except for the CNPC subsidiary, the other contract winners are energy sector service providers. Gulf Oil and Gas FZE has only implemented one project in its history, a facility in Turkmenistan designed to separate natural gas (associated gas) from oil in the process of oil production. The joint Korean venture has reportedly has little experience building gas processing plants, but both LG and Hyundai are actively pursuing business opportunities in several sectors of the Turkmen economy.

16. (SBU) According to a Ministry of Oil and Gas official, the main criteria for the selection of contractors for these projects were low bids and the companies' preparedness to meet target production levels by the end of 2014. The official opined that the gas production facilities, built according to these contracts, will mostly be dedicated to exporting gas to China. He also noted that these four contracts make up the first phase of South Yoloten development and that the second phase is unlikely to start sooner than five-six years from now because there will not be sufficient export demand during that period of time to justify faster expansion. The Government's previous plan was to bring the first phase production rate to

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40 bcm of gas per year, but the current weak demand for gas in the international market seem to have forced the Turkmen Government to decrease its target production volume for the first phase to 30 bcm per year.

17. (SBU) COMMENT: The announcement that the GOTX will develop phase one of its potentially lucrative South Yoloten field by means of service contracts with foreign companies is consistent with the GOTX's policy to develop its "low hanging fruit" in onshore gas fields with service contracts. Some international oil companies (IOC) have interpreted the announcement to mean that the GOTX will never enter production service agreements (PSA) for onshore developments. Nevertheless, in order to develop subsalt hydrocarbon resources that are harder to exploit, it is plausible that the GOTX may offer production sharing conditions to IOCs, even if the GOTX insists on avoiding the term PSA. Or they may give service providers a shot at the subsalt as well. END COMMENT.

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